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S E C R E T SECTION 01 OF 03 GUATEMALA 002500

SIPDIS

TREASURY FOR CHRIS KUSHLIS AND BILL BLOCK; PANAMA FOR BICE-ELBERT CRUZ; DHS FOR MIAMI FIELD OFFICE - NEAL RAU

E.O. 12958: DECL: 09/10/2013

TAGS: [KCOR](#) [EFIN](#) [PGOV](#) [MOPS](#) [PINR](#) [GT](#) [PM](#)

SUBJECT: MILITARY PENSION FUND: MILITARY FOCUS ON RECOVERING FUNDS, AVOIDING OUTSIDE INVESTIGATION

REFS: A. GUATEMALA 02255 B. GUATEMALA 01465

[1C](#). GUATEMALA 01687 D. GUATEMALA 01909

[1E](#). USDAO IIR # 6 838 0042 02 DTG 042124Z

[1F](#). GUATEMALA 02331

Classified By: Econ Thomas A. Palaia for reason 1.5(d).

[11](#). (S) Summary: EmbOffs met with General Alfredo Gonzalez to discuss recent developments in the theft and mismanagement of the Military Pension Fund. Gonzalez, who has been involved in the military's internal investigation of the matter, alleged payoffs were made to current and former top military officials involved with IPM's governing board. The fund may have lost up to \$23 million in this particular scandal and its financial health remains uncertain. No charges have been brought against any high-ranking military official involved despite alleged evidence implicating many. The scandal may have been a factor in the forced resignation of Military Chief of Staff Rios Sosa, son of former de facto president and current presidential candidate Rios Montt, though Gonzalez claims Rios Sosa was not aware of the scandal until after the funds had been lost. End Summary.

Background

[12](#). (SBU) The Military Pension Fund (IPM) is a quasi-governmental organization responsible for managing the contribution-based pension plans of some 12,000 current and former military personnel. IPM, along with its subsidiary INVERMA, reportedly transferred approximately USD 37 million to the Miami-based Pension Fund of America (PFA). The money was transferred in several smaller transactions to PFA from August through November 2001 with the stated intention of investment in stocks and bonds traded in New York. Reportedly, only USD 14 million has been recovered.

[13](#). (S) EconOff, DATT and PolOff met with General Alfredo Gonzalez to discuss IPM, including the recent scandal and its possible role in the resignation of former military Chief of Staff, Rios Sosa (Refs A and F). Gonzalez was on the governing board of the IPM until about three weeks ago and has been involved in investigating the scandal and pursuing a lawsuit in Florida on behalf of IPM and the MOD. He was not a board member at the time of the theft but, according to DAO sources, may have his own corrupt interests unrelated to IPM.

Yes There was Corruption

[14](#). (S) In this conversation, Gonzalez immediately backed off claims he had made that IPM was simply the victim of bad financial decisions and a group of swindlers in Miami. He admitted that the previous governing board of IPM received kickbacks from PFA for agreeing to transfer the funds through PFA accounts. He claimed that various members (unidentified) of that governing board received checks for USD 50,000. Former MOD Arevalo Lacs confronted board members with photocopies of these checks well before the scandal broke and asked for the return of the money. Gonzalez said that not only was the money never returned, IPM continued to use PFA to manage their investments. Note: No crusader for integrity, Arevalo Lacs became a millionaire during his stint as MOD.

[15](#). (S) Gonzalez said board members considered the kickbacks commissions and insisted that they did not know the fund would be robbed. He could not explain, however why anyone believed that PFA would be willing to pay such high "commissions" for the privilege of managing the fund. He also could not answer how IPM justified the use of what they now allege to be an unlicensed middleman (IPM alleges in a suit filed in Florida that PFA is not licensed to manage investments or give investment advice) to open accounts and deposit funds whose ultimate destinations were supposedly major investment firms in New York. When asked why the money wasn't invested directly with a major investment house, he conceded board members were simply looking out for their "commissions" and reluctantly

admitted that some may have suspected a larger theft was taking place. Gonzalez continued to deny any connection between the IPM scandal and the theft of at least USD 45 million from the Guatemalan Social Security Fund (IGSS) (Refs B and C). Gonzalez insisted the two groups' dealings with PFA were completely unrelated.

¶16. (S) Gonzalez speculated that a lower-level technocrat might have masterminded the theft. The military wanted in-house, Guatemalan actuarial capabilities to save on expensive consulting fees paid to Spanish accounting firms who advised them on IPM's insurance structure. Lt. Col. Archila Grazales (phonetic), at the time a Captain, was sent to Mexico for five years of training in actuarial science. He returned a Major and was asked to assist IPM in managing its finances. Gonzalez claims it was Grazales who first brought PFA to the attention of the board and got the board interested in U.S. investment opportunities. Gracales reportedly arranged for PFA to make a presentation to the board where they misrepresented their credentials and were successful in convincing the board to invest through them.

¶17. (S) The scandal did not end after IPM's board changed and a new board began its investigation and sought legal action in Florida in late 2001. Gonzalez claims that IPM opened an account in Miami and deposited an additional USD 1 million, intended to cover anticipated legal costs involved in recovering the USD 37 million invested. According to Gonzalez, the legal fund was mistakenly invested in insurance and was not available when they first attempted to initiate legal proceedings. This delay gave PFA ample time to move the money beyond the reach of Florida authorities.

¶18. (S) EmbOffs asked Gonzalez what legal actions were being taken in Guatemala. Gonzalez insisted that all internal investigation efforts were focused on recovering the lost investments and that they would worry about placing blame after the money was found. The Public Ministry was not being brought in because the MOD wanted to keep this an internal investigation.

Rios Sosa's Involvement

¶19. (S) EmbOffs asked about former Chief of Staff Rios Sosa's involvement in IPM and the role it might have played in his recently forced resignation. Rios Sosa was a member of the governing board for a short period in late 2001. Gonzalez claimed that Rios Sosa's recent resignation had more to do with avoiding a perceived conflict of interest with his father, Rios Montt's Presidential campaign. He insisted that Rios Sosa's involvement in IPM was very limited and occurred after most of the money was already transferred to PFA. He alleged that Rios Sosa saw the financial state of IPM and, recognizing the potential for scandal, immediately resigned from his position on the governing board. Gonzalez went on to assert that, without the target of Rios Sosa, the scandal of IPM would disappear from the headlines.

IPM's Financial Health - or Lack Thereof

¶10. (S) Gonzalez assured EmbOffs that IPM is well-funded and in no danger of bankruptcy. He asserted that IPM is taking in substantially more each month than it is paying out in benefits. The fund owns significant income generating investments in properties and companies that supplement the payroll contributions of military personnel. He explained that the fund owns approximately 60% of a variety of companies (the other 40% being owned by high-level current and former military officials). Additionally, IPM has periodically been the recipient of generous transfers from the GOG. However, when pressed on IPM's continued solvency, he admitted that without substantial reform the Fund would likely face serious financial problems within 10 years, as the number of retirees drawing from the fund increases and the number contributing decreases due to military reductions.

¶11. (S) Gonzalez did not address the history of corruption within the IPM and related institutions, such as the Military Bank, which cast doubt on the fund's financial health (Ref E). The fund has been known to make loans on favorable terms to board members and high-ranking military and MOD officials with no intention of ever collecting. The fund has also been involved in sketchy real estate deals where property of little value was purchased from friends of the fund for inflated sums. It is likely that Gonzalez' positive assessment of the medium-term health IPM is based in part on overvalued assets and misplaced faith in current and future fund management.

¶12. (S) One potential up-side for the fund's financial

outlook is the 40% ownership of many of its investments by influential military and ex-military, who likely have the wherewithal to ensure their investments' profitability. Companies with ties to current and former military have been known to use illicit means to support their businesses such as maintaining monopolies through intimidation and manipulation of the legal system as well as access to political favors and government-financed sweetheart deals. However, these investments are subject to the same risks of fraud and theft that depleted IPM's U.S. investments.

It Could Happen Again

¶13. (S) No substantive oversight has been developed to monitor the decisions of the governing board of the fund. There is no reason to believe current and future IPM management will not look for their own opportunities to get their hands in the cookie jar. According to Gonzalez, the IPM's management answers to no one except the MOD, and the government has no authority over this quasi-governmental pension plan. Congressional calls for Central Bank auditing and increased transparency appear to have been largely ignored. The IPM is very secretive about its by-laws. Gonzalez claims he was fired from the governing board for supporting reforms that would limit the sitting MOD's discretionary nominations and control over the board.

Comment

¶14. (S) There is undoubtedly more to the story than Gonzalez presented. Possible ties to the IGSS scandal and who was involved outside of the IPM board remain unclear. Gonzalez' assertions of Rios Sosa's innocence were not well supported. His insistence that a low-level technocrat was the only real connection to PFA was convenient but unlikely. The Public Ministry would be expected to investigate given the amount of publicly available evidence and allegations, regardless of the lack of an invitation from the MOD. There is also the potential that more extensive money laundering was involved given the secrecy of IPM's financial dealings and the military's known links to organized crime. The scope of the fraud and the PFA link to the IGSS scandal ought logically to bring the Public Ministry running. The lack of an investigation may result from a reluctance at the Public Ministry to take on the military. It may also be the result of higher-level political interference.

¶15. (S) Comment continued: The theft and subsequent lack of resolve to prosecute those involved reflect a lack of transparency and oversight of the Guatemalan military's business and financial dealings. Many high-ranking officials are reluctant to go after their peers for fear of exposing their own corrupt interests. This scandal further taints the image of the military and indirectly, Rios Montt through his son's possible involvement. The potential financial trouble for IPM poses a threat to the morale of lower and mid-level officers who are already tired of the corruption of many of their superiors. This may eventually have serious budget implications for the GOG when they are called on again to bail out the institution.

HAMILTON